



Session 25

Direct Loan Policy Update



Inadvertent Overaward

- Borrower who exceeds annual / aggregate loan limit is ineligible for Title IV aid
- Two causes:
 - Inadvertent
 - Fraud
- School may not award any additional Title IV aid until resolved
- School must work with DLSC/LOC/borrower to resolve



Inadvertent

- Inadvertent = not due to borrower fraud
- Examples:
 - School processing error
 - Unintentional borrower error or omission
 - Missing or erroneous NSLDS data
 - FAT reporting error



Fraud

- Deliberate false information or action by borrower
- If fraud is suspected, school must immediately notify School Services at the Direct Loan Servicing Center:
1-888-877-7658



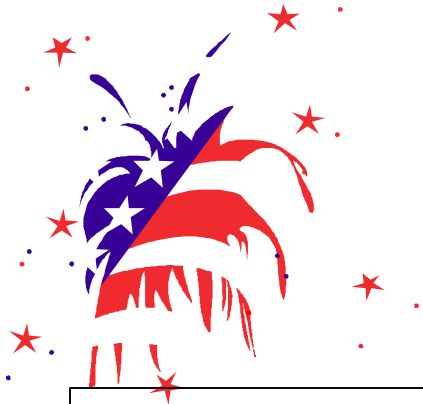
Regaining Eligibility

■ Options to regain eligibility:

1. Excess amount must be eliminated
2. Borrower must make arrangements satisfactory with loan holder to repay excess

OR

3. Borrower must repay amount that exceeds loan limit



Eliminating Excess: Changing Sub to Unsub

If...

- Software for year of overaward is operational and
- Borrower has unsubsidized eligibility

Then...

- School must work with LOC to eliminate excess
- May be done by phone:

1-800-848-0978



Eliminating Excess: Changing Sub to Unsub

School:

- Reduces original subsidized loan
- Originates new unsubsidized loan equal to excess amount, using same loan period and disbursement dates
- OK to do after end of loan period



Eliminating Excess: Changing Sub to Unsub

- School must inform borrower that -
 - Borrower owes interest on unsubsidized loan from date original subsidized loan was disbursed
- School may award aid after completion of process



Eliminating Excess: Changing Sub to Unsub

Example #1

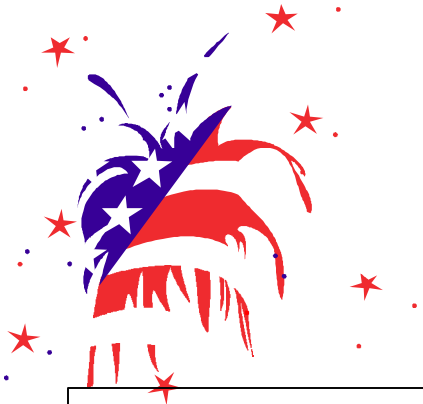
- Independent undergraduate with subsidized aggregate of \$25,000 at beginning of 1998-99 AY
- Exceeded aggregate when received \$5,500 subsidized loan during 1997-98 (\$2,000 overaward)



Eliminating Excess: Changing Sub to Unsub

Example #1 (cont'd)

- 1997-98 software is operational
- School reduces 1997-98 subsidized loan to \$3,500 and originates new unsubsidized loan for \$2,000



Repayment in Full or Arrangements to Repay

If...

- Software for year of overaward is no longer operational and/or
- Overaward is > unsubsidized eligibility

Then...

- Borrower must -
 - Repay excess amount or
 - Make arrangements with DLSC to repay



Repayment in Full or Arrangements to Repay

- School or borrower may contact DLSC:
1-888-877-7658
- DLSC sends borrower letter explaining options
- To repay in full, borrower sends check
- To make arrangements to repay, borrower signs repayment agreement and returns to DLSC



Repayment in Full or Arrangements to Repay

- ★ ■ Under the repayment arrangement:
 - All terms and conditions of original promissory note apply
 - May be consolidated
- DLSC sends letter to school stating that borrower is eligible
- School may award aid upon receipt of letter



Arrangements to Repay

Example #2

- Independent undergraduate with subsidized aggregate of \$29,000 at beginning of 1998-99 AY
- Initially exceeded aggregate when received \$3,500 subsidized loan during 1996-97
- Received second subsidized loan for \$5,500 during 1997-98
(total overaward = \$6,000)



Arrangements to Repay

Example #2 (cont'd)

- 1997-98 software is operational
- School replaces \$5,500 subsidized loan with unsubsidized loan for same amount
 - Borrower still exceeds aggregate by \$500
- 1996-97 software is no longer operational
- Borrower makes arrangements to repay portion of \$3,500 loan that exceeded subsidized aggregate (\$500)



Exceeding Total Combined Sub/Unsub Annual or Aggregate Limits

Example #3

- Dependent undergraduate with combined subsidized/unsubsidized aggregate of \$25,000 at beginning of 1998-99 AY
- Exceeded aggregate when received \$5,500 subsidized loan during 1997-98 (\$2,000 overaward)



Exceeding Total Combined Sub/Unsub Annual or Aggregate Limits

Example #3 (cont'd)

- School reduces \$5,500 subsidized loan to \$3,500 and originates new unsubsidized loan for \$2,000
- Borrower makes arrangements to repay excess \$2,000 or repays in full
- Borrower is not eligible for Direct Loans, but may receive other Title IV aid



Exceeding Total Combined Sub/Unsub Annual or Aggregate Limits

Example #3 (cont'd)

- School reduces \$5,500 subsidized loan to \$3,500 and originates new unsubsidized loan for \$2,000
- Borrower makes arrangements to repay excess \$2,000 or repays in full
- Borrower is not eligible for Direct Loans, but may receive other Title IV aid



Master Promissory Note Academic Year 1999-2000

- New MPN not required if loan amount increases as result of changes in -
 - Student's financial need
 - Grade level (including undergraduate to graduate)
 - Loan period
 - Dependency status



Master Promissory Note Academic Year 1999-2000

- Student wants to borrow additional loan eligibility
- School must:
 - Submit change record to LOC
 - Change to loan amount
 - Eligibility criteria.
 - Document request for increase
- **New MPN not required**



Master Promissory Note Increases: Example #1

If...

- Student plans to graduate and receives one-semester loan
- Student doesn't graduate as planned and returns next term

School may...

- Change **loan period**
- Disburse next term
- New MPN not required



Master Promissory Note Increases: Example #2

If...

- Student graduates but returns next semester as graduate student

School may...

- Change **grade level**
- Change **loan period**
- Disburse next term
- New MPN not required



Periods of Ineligibility

- In some cases, loan period may include period when student was not enrolled at least half-time

Example:

- Loan period = fall/winter/spring
- Student:
 - Attends fall quarter
 - Skips winter, returns for spring



Periods of Ineligibility

- In spring, school:
 - Recalculates loan using adjusted COA for fall/spring
 - Disburses remaining portion of loan
- Loan period = fall/winter/spring
- New Master Promissory Note not required
- School must have information from student indicating intent to return



Borrower Eligibility After Disability Cancellation

For borrower with prior total and permanent disability cancellation:

- Physician must certify OK for substantial gainful activity
- Student must sign statement that loan cannot be cancelled for current condition unless it substantially deteriorates



Prior Disability Cancellation

- Substantial gainful activity means:
 - Attending school
 - Successfully completing program
 - Securing employment to repay new loan
- Borrower is not eligible for new loan if physician's certification limits activity to attending school



Prior Disability Cancellation

- If ISIR/SAR shows prior disability cancellation, school must:
 - Collect physician's certification and borrower's signed statement
 - Send both to LOC
- School may develop standardized forms



Veterans

- Department of Veterans Affairs (DVA) physicians are now allowed to certify disability cancellation/deferment requests for veterans with student loans
- Direct Loan cancellation and deferment request forms are being revised to include new language developed by ED and DVA



Peace Corps Volunteers

- Peace Corps volunteers may receive economic hardship deferments without -
 - Documenting income
 - Reapplying each year
- Borrower must provide certification of Peace Corps service
- Direct Loan form is being revised
 - Revised deferment request form available late spring 1999



Reduced Loan Amounts

Schools may not have general policies that:

- Limit loan amounts based on enrollment status or length of period attended

Examples:

- Half-time students = 1/2 annual limit
- Enrollment in 1 term of 2-term AY = 1/2 annual limit

- Limit loan amounts to institutional charges



Reduced Loan Amounts

- Less than full-time or single-term students may be eligible for full annual loan limit
- Schools may originate loans for less than borrowers are eligible to receive on a case-by-case basis only
 - See 34 CFR 685.303(a)(7)
- Schools may package loans according to school policy
 - If package does not include loans, must notify students that loans are available



Teacher Forgiveness

- For “new borrowers” only:

- No outstanding Title IV loans as of 10/1/98

- To qualify, borrower must:

- Teach full-time for 5 consecutive years in a low income elementary or secondary school
- Meet subject area/certification requirements
- Not be in default

- Maximum forgiveness: \$5,000

- Applies to total loan balance outstanding after completion of teaching requirement



Negotiated Rulemaking

Summer NPRMs:

- Repayment Incentives
- Use of MPN multi-year functionality
- Cohort Default Rates
- Common DL/FFEL terms, conditions, and benefits



Direct Loan Policy Update

Question and Answer Handout

- Updated Q&As from previous Direct Loan Bulletins
- New information



Session 25

Direct Loan Policy Update

Questions and Answers

- *Loan Limits*
- *PLUS Loans*
- *Additional Unsubsidized Eligibility*
- *Program Participation*
- *Promissory Notes*
- *Origination/Disbursement*
- *Borrower Eligibility*
- *Exit Counseling*

LOAN LIMITS

1. Are loan amounts that a student received for graduate study counted toward the student's undergraduate aggregate loan limit?

No. For example, if a student who previously received undergraduate and graduate degrees returns to school to complete a second undergraduate program, only Direct Loan Program or FFEL Program loans that the student received for the first undergraduate program are included in determining the student's remaining loan eligibility for the second undergraduate program. If the total amount received for the first undergraduate program does not exceed the undergraduate aggregate loan limits, the student may receive additional funds for the second program, up to the undergraduate limits.

Although loans received for graduate study are not counted toward a student's undergraduate aggregate loan limit, the combined loan amounts received for undergraduate and graduate programs may not exceed the total allowable aggregate loan limits.

Example: An independent student received the following loan amounts for a first undergraduate program and a graduate program:

First undergraduate program:	Graduate program:
\$20,500 subsidized	\$45,000 subsidized
\$10,000 unsubsidized	\$40,000 unsubsidized

The student has now enrolled in a second undergraduate program. Only the loans received for the first undergraduate program are counted toward the student's *undergraduate* aggregate loan limit. Since the total amount received for the first undergraduate program (\$30,500) does not exceed the aggregate loan limit for an independent undergraduate (\$46,000, maximum \$23,000 subsidized), the student has remaining loan eligibility of up to \$15,500 for the second undergraduate program. However, the loans received for the graduate program must be considered in determining whether the student has exceeded the *total* aggregate loan limits. In this case, the total subsidized amount already received (\$65,500) is the maximum subsidized amount that a student may receive for undergraduate and graduate study combined. Therefore, the student may receive only unsubsidized loans for the second undergraduate program.

2. If interest on a subsidized or unsubsidized loan accrues and is capitalized (added to the loan principal), does the capitalized interest count toward a borrower's aggregate loan balance for purposes of determining eligibility for additional loans?

No. In determining whether a borrower has reached the aggregate loan limit, only the unpaid principal balance from the original loan amounts is counted. Any portion of a borrower's outstanding principal balance that is the result of capitalized interest should be excluded.

- 3. Is there any limit to the number of times a student can receive the maximum annual loan amount at a particular grade level without progressing to a higher grade level?**

There are no federal requirements that limit the number of times a student may receive the maximum loan amount at the same grade level, *as long as the student meets all eligibility requirements (including satisfactory academic progress)* and at least an academic year has elapsed before the student receives another loan.

However, a school may establish a policy that limits the number of times a student can receive the maximum annual loan limit for a particular grade level. (For example, a school could allow students to receive the second-year undergraduate annual loan limit only once.) Such a policy must be the same for all students in the same program and may not be applied on a case-by-case basis.

- 4. Are loan amounts that a borrower receives for preparatory coursework or a teacher certification program counted toward the borrower's annual loan limit?**

Yes. *Example:* A student receives loan funds for preparatory coursework during the fall semester of a fall-spring academic year and then enrolls in a graduate program during the spring semester. The amount received for the preparatory coursework must be subtracted from the graduate student annual loan limit in determining the maximum amount that the student is eligible to borrow for the spring term.

- 5. If a borrower qualifies only for a very low subsidized loan amount, is a school required to originate a Direct Subsidized Loan for that amount before originating a Direct Unsubsidized Loan?**

In both the Direct Loan and FFEL programs, if a student is eligible for \$200.00 or less in subsidized loan funds, the school may choose not to give the student a subsidized loan and instead may include that amount as part of an unsubsidized loan.

- 6. Can a school ever refuse to originate a Direct Loan or originate a loan for an amount that is less than the student is eligible to receive?**

A school may take either action only if the school—

- documents the reason for the action and provides it to the borrower in writing,
- takes such actions only on a case-by-case basis,
- retains documentation that supports the action in the student's file, and
- does not take such actions based on the borrower's race, gender, color, religion, national origin, age, disability status, or income.

- 7. Can a school calculate loan amounts on the basis of enrollment status? For example, can a school have a policy that prohibits half-time students from receiving more than one-half of the applicable annual loan limit?**

Can a school calculate loan amounts on the basis of the length of the academic year attended by a student? For example, can a school have a policy that limits students who are enrolled for only one quarter to no more than one-fourth of the applicable annual loan limit?

Can a school limit loan amounts to institutional charges only?

A school may not have a *general policy* that limits loan amounts on the basis of enrollment status or the length of period attended, or that limits loans to amounts needed to cover institutional charges. For example, a school may not establish policies that reduce loan eligibility for all borrowers who are enrolled less than full-time or who are enrolled for a single term that is *not* a final period of study (that is, if a borrower will not graduate or complete the requirements of the program at the end of that term). Borrowers who are enrolled less than full-time or for a single term may be eligible to receive up to the full applicable annual loan limit, depending on cost of attendance, estimated financial assistance, and expected family contribution.

A school may offer aid packages that do not include loans, as long as students are notified of the availability of loans. Further, a school may refuse to originate a loan or may originate a loan for an amount less than a borrower is eligible to receive if it does this *on a case-by-case basis*—see Q&A #6 and 34 CFR 685.301(a)(7). Because this can only be done on a case-by-case basis, a school cannot have a policy that automatically reduces loan eligibility for *all* borrowers (or for a group of borrowers) who are enrolled on a less than full-time basis or attending less than a full academic year.

8. Is proration required for loans made to students who are enrolled in preparatory coursework or taking courses required for teacher certification?

No. Proration requirements apply to loans made to students who are:

- enrolled in a *program* that is shorter than an academic year, or
- enrolled in a *program* that is one academic year or longer, but in a final period of study that is shorter than an academic year.

PLUS LOANS

9. Is a stepparent eligible to receive a Direct PLUS Loan?

In both the Direct Loan and FFEL programs, a stepparent may receive a PLUS loan if the stepparent's income and assets were, or would have been, taken into account when calculating a dependent student's expected family contribution. See 34 CFR 685.200(b)(2) and 34 CFR 682.201(b)(2).

10. Does the 30-day delayed disbursement requirement apply to PLUS loans obtained on behalf of first-time first-year borrowers?

No. This requirement applies only to subsidized and unsubsidized loans made to student borrowers.

11. Can a student be an endorser on a PLUS loan?

No. To promote sound borrowing practices, the Department does not permit students to serve as endorsers on PLUS loans.

12. Can someone who is not a U.S. citizen or national, permanent resident, or eligible non-citizen serve as an endorser on a PLUS loan?

No. Because an endorser might potentially be required to assume responsibility for repaying a PLUS loan, he or she must be someone who can reasonably be expected to be in the United States for other than temporary purposes. For this reason, the Department requires an endorser to meet the same citizenship and residency requirements as a borrower. That is, an endorser must be a U.S. citizen or national, permanent resident, or eligible non-citizen.

13. What must a school do if it unknowingly makes a Direct PLUS Loan disbursement after the date of the PLUS borrower's death?

Direct Loan funds may not be disbursed after the death of the borrower. Because Direct PLUS Loan funds are generally applied to the student's school account rather than disbursed to the borrower, it is possible that a school may make a PLUS loan disbursement without knowing that the parent borrower has recently died. When the Direct Loan Servicing Center learns that a Direct PLUS Loan borrower has died, it will immediately notify the school of any PLUS disbursements that were made after the date of the borrower's death. The school should work with the Direct Loan Servicing Center to resolve the situation.

ADDITIONAL UNSUBSIDIZED ELIGIBILITY

The Q&As in this section cover issues related to the eligibility of dependent undergraduates to receive "additional" unsubsidized loan funds at the higher annual loan limits that apply to independent undergraduates. A dependent undergraduate may receive these additional unsubsidized funds only if a parent is unable to receive a PLUS loan. (For example, the maximum annual loan limit—subsidized and unsubsidized combined—for a dependent first-year undergraduate is \$2,625. However, an independent first-year undergraduate, or a dependent student whose parent is unable to obtain a PLUS loan, is eligible to borrow up to \$4,000 per year in additional unsubsidized funds.)

14. If one parent applies for a Direct PLUS Loan and is rejected due to adverse credit, must the other parent apply before the dependent student is eligible for additional unsubsidized loan amounts?

No. In both the Direct Loan and FFEL programs, only one parent need apply.

15. Can a school award additional unsubsidized funds to a dependent student if the student's parent received a PLUS loan at the beginning of the academic year, but is later denied additional PLUS funds because of adverse credit?

Yes. In this situation, the student may receive additional unsubsidized funds for the same loan period for which the parent received the PLUS loan. The PLUS loan funds that the parent received do not affect the student's additional unsubsidized loan limit, but the PLUS loan must be counted as estimated financial assistance in determining how much the student is eligible to borrow.

16. What happens in the reverse situation? Can a parent who was initially denied, but later approved for, a PLUS loan receive PLUS funds if the school has

already awarded additional unsubsidized funds to the student for the same loan period?

Yes. However, the school must cancel any disbursements of the additional unsubsidized loan that have not yet been made. Also, any additional unsubsidized funds that have already been disbursed to the student must be counted as estimated financial assistance when determining the PLUS loan amount for which the parent is eligible.

17. If two divorced parents have agreed to share the cost of paying for their child's education by taking out PLUS loans, but one of them is denied because of adverse credit and the other is unwilling to borrow more, can the school award additional unsubsidized funds to the student to make up for the PLUS funds that the one parent had expected to receive?

No. A dependent student may receive additional unsubsidized loan funds only if a parent is unable to obtain a PLUS loan. In this case, one of the student's parents has been approved for a PLUS loan.

18. Is it always necessary for a parent to apply for a PLUS loan and be denied before a school can award additional unsubsidized funds to a dependent student?

No. A school may award additional unsubsidized funds if it determines that the student's parent will likely be unable to obtain a PLUS loan because of exceptional circumstances, and the student's family is otherwise unable to provide the student's expected family contribution. In these circumstances, it is not necessary for the parent to apply for a PLUS loan. However, the school must document the reason for the exception in its file.

19. What are "exceptional circumstances"?

These include—but are not limited to—circumstances in which the parent is supported only by public assistance or disability benefits, the parent is incarcerated, or the parent has an adverse credit history.

Although adverse credit history may be considered an exceptional circumstance, note that a school does not determine that a parent has an adverse credit history. Rather, the school makes a determination of exceptional circumstances. For example, if a school can document that a parent is currently 90 or more days delinquent on the repayment of a debt, it may consider this to be an "exceptional circumstance" that would likely preclude the parent from obtaining a PLUS loan based on the PLUS loan eligibility requirements in the Direct Loan and FFEL program regulations (see 34 CFR 685.200(b)(1)(vii)(B) and 34 CFR 682.201(b)(1)(vii)(C)). The school must maintain documentation of the exceptional circumstances in its file.

20. Can a school award additional unsubsidized funds if it determines that there are exceptional circumstances even if the parent has no adverse credit history and has already been approved for a PLUS loan?

Yes. A parent who has no credit history or who does not have an adverse credit history will be approved by the Loan Origination Center for a PLUS loan. Even

though the Loan Origination Center has determined that the borrower does not have an adverse credit history, there may be other exceptional circumstances as described above. In these circumstances, the school may cancel the PLUS loan and award unsubsidized funds to the student up to the higher additional unsubsidized limit. The school must document the reason for the exception in its file.

- 21. If a dependent student received additional unsubsidized funds during the previous academic year because a parent's PLUS loan application was denied due to adverse credit (or the school determined that there were other exceptional circumstances), may the school assume that the adverse credit issues or other circumstances still exist and automatically give additional unsubsidized funds to the student the following year?**

No. The school must establish the dependent student's eligibility for additional unsubsidized funds each year. Adverse credit issues or other exceptional circumstances that were present during a prior academic year may no longer exist and therefore must be documented each year.

PROGRAM PARTICIPATION

- 22. Can a school choose to participate in the Direct Subsidized Loan Program, but not in the Direct Unsubsidized Loan Program?**

Yes. The Department's previous policy required schools that participate in the Direct Loan or FFEL programs to make both subsidized and unsubsidized loans available to all eligible students. However, as a result of changes made by the Higher Education Amendments of 1998, the law now provides that a school may choose whether it will participate in any of the individual loan programs (subsidized, unsubsidized, or PLUS). This means that a school may, for example, choose to offer only subsidized loans to its students.

- 23. Can a school establish a policy of not making additional unsubsidized funds available to dependent students whose parents are ineligible for Direct PLUS Loans?**

No. If a school participates in the Direct Unsubsidized Loan Program, it may not have a policy that prohibits otherwise eligible dependent students from receiving additional unsubsidized funds. Both the law and federal regulations provide that dependent students whose parents are ineligible for Direct PLUS Loans may borrow additional Direct Unsubsidized amounts at the higher annual loan limits normally available only to independent undergraduates.

- 24. Can a Direct Loan school refuse to certify a FFEL Program loan for a borrower who requests a loan through that loan program rather than through the Direct Loan Program?**

Yes. If a school has chosen to participate only in the Direct Loan Program or only in the FFEL Program, there is no federal requirement that prohibits the school from refusing to make loans from the other loan program available to its student and parent borrowers.

An institution that participates in both loan programs may provide loans through either program to certain groups of borrowers (for example, graduate students or students attending a particular campus) or to individual borrowers. However, a school that participates in both programs is not *required* to offer each borrower at that institution a choice of a Direct Loan or a FFEL Program loan.

25. A school is switching from the FFEL Program to the Direct Loan Program and wants to make summer term Direct Loans to students who received FFEL Program loans for the immediately preceding fall and spring terms. The school treats the summer term as a trailer. Is this permissible?

Yes, as long as there is no overlap in the loan periods. The law prohibits borrowers from receiving loans through both programs for the same loan period. Of course, any FFEL Program loan amounts that a borrower received must be included in determining the borrower's remaining loan eligibility for the summer trailer.

PROMISSORY NOTES

26. Can a school submit a promissory note to the Loan Origination Center if the note has been signed by a disabled borrower whose signature is simply an "X"?

The Direct Loan Program regulations require a school to provide the Department with a signed, legally enforceable promissory note. A school may submit a promissory note signed with an "X" only if the school ensures that the note is legally enforceable in accordance with applicable state law. If applicable state law requires "X" signatures to be notarized, the school must have the promissory note notarized before sending it to the Loan Origination Center. The school must also include a note of explanation with the promissory note indicating that the signature is that of the borrower and that the school has complied with applicable state law.

27. Can a person with the power of attorney for a borrower sign a Direct Loan promissory note?

Yes. However, if the individual with the power of attorney signs the promissory note, the school must obtain written authorization from the borrower to apply the loan directly to the borrower's account at the school. If there are any remaining funds, the school must provide those funds to the borrower by check or other means requiring the borrower's endorsement or authorization.

In addition, the school must provide the Loan Origination Center with a copy of the power of attorney document. A photocopy or fax is acceptable—the Loan Origination Center does not require the original power of attorney document.

28. Can a borrower sign a Direct Loan promissory note after the loan period has ended?

Yes. However, the school must (1) have originated the loan while the borrower was enrolled and eligible, (2) have a signed promissory note before disbursing any funds, and (3) make any late disbursement within 90 days after the end of the loan period.

LOAN ORIGATION/DISBURSEMENT

29. A school can make a late disbursement of a Direct Loan within 90 days after the end of the loan period. Is there a similar provision that allows a school to originate a Direct Loan within a certain number of days after the end of the loan period?

No. A Direct Loan must be originated while the borrower is enrolled and eligible. This means that a school must originate a Direct Loan before the end of the loan period or, if the student does not complete the loan period, before the student ceases to be enrolled at least half time.

30. What is the date of loan origination for a Direct Loan?

The date of loan origination (comparable to the loan certification date in the FFEL Program) is the date a school completes the “process/originate” function in EDEExpress, or the equivalent function if a school uses its own software. (The date of loan origination is *not* the same as the loan origination record “creation date” generated by EDEExpress after borrower/student data items have been entered.) It is not necessary to transmit a loan origination record to the Loan Origination Center in order for a Direct Loan to be considered originated—the date of loan origination is recorded in the EDEExpress software.

31. Is a school required to make late disbursements?

No. If a school does not want to process late disbursements, it is not required to do so.

32. When making a late disbursement, may a school disburse the full original disbursement amount?

Not in all cases. A school may make a late disbursement of a Direct Loan for an amount equal to the student’s documented educational costs for the time the student was enrolled. (Note that educational costs include both institutional and noninstitutional expenses.) In some instances, such as when making a late disbursement to a student who has withdrawn, a school must reduce the original disbursement amount because it exceeds the student’s educational costs for the time the student was enrolled.

33. Can a school make a disbursement to a student who is on an approved leave of absence (LOA)?

In both the Direct Loan and FFEL programs, a school may make a late disbursement to a student who is on an approved LOA if the loan was originated or certified prior to the beginning of the LOA. All regular late disbursement requirements apply, including the requirement that the amount disbursed may not exceed the student’s educational costs for the period when the student was enrolled and eligible. In addition, a late second or subsequent disbursement may not be made. See 34 CFR 668.164(g).

34. Can a school originate a Direct Loan or certify a FFEL Program loan while a student is on an approved LOA?

Yes, but only for a period of enrollment that will follow the student's return from the LOA. That is, the loan period may not include the LOA or a period of time before the LOA.

35. After a student returns from a LOA, can a school originate or certify a loan with a loan period that includes the entire academic year?

When a student returns from a LOA, a school may originate or certify a loan for either the remaining portion of the academic year or the full academic year. If the loan is for the full academic year, expenses related to the period of the LOA may not be included in the student's cost of attendance.

36. Can a school make late disbursements to cover unpaid institutional charges only?

Yes, but it may do so only on a case-by-case basis. Refer to Q&A #6 for guidance on the conditions under which a school may give a student a loan for an amount less than the student is eligible to receive.

BORROWER ELIGIBILITY

37. If a borrower with a defaulted loan regains Title IV eligibility by making satisfactory repayment arrangements or through consolidation, is the borrower's eligibility retroactive to the beginning of the academic year or only to the beginning of the term?

Eligibility for Direct Loans or FFEL Program loans is retroactive to the beginning of the academic year during which the borrower regained Title IV eligibility.

38. Does the rule described in Q&A #37 also apply in situations where a borrower was initially ineligible for reasons related to citizenship status, ability to benefit, or satisfactory academic progress, but regains eligibility during the academic year?

Yes. However, school policy may provide for reinstatement of eligibility at a later date in the case of a borrower who was initially ineligible for Title IV assistance due to failure to meet satisfactory academic progress standards.

39. How does a school verify that a borrower who was in default on a Title IV loan has regained eligibility by making satisfactory repayment arrangements or through consolidation of the defaulted loan?

If the National Student Loan Data System (NSLDS) has been updated by the loan holder, the NSLDS Financial Aid History section of the Institutional Student Information Record (ISIR) or Student Aid Report (SAR) and the NSLDS on-line Financial Aid Transcript (FAT) screens will indicate that the borrower has made satisfactory repayment arrangements on a defaulted loan (loan status code "DX"), or that the defaulted loan has been paid in full through consolidation (loan status code "PC"). If this information is not shown, before disbursing any student aid the school must obtain a written statement from the holder of the defaulted loan indicating that the borrower has made satisfactory repayment arrangements (that is, six consecutive,

voluntary, on-time, reasonable and affordable monthly payments) or that the loan was paid in full through consolidation.

- 40. If a school disburses loan funds prior to the first day of classes and the student withdraws or is expelled before that date, or otherwise fails to attend classes during the period for which the loan is attended, who is responsible for returning the loan money to the Department?**

The school must return any loan proceeds that were credited to the student's account. If the school disbursed loan proceeds directly to the borrower, it must also return the amount of any payments that the borrower made to the school, up to the amount of the loan proceeds that were given to the borrower.

The school should notify the Direct Loan Servicing Center of the amount of any loan proceeds that were given directly to the borrower (or to the student, in the case of a Direct PLUS Loan) and were not returned to the Department by the school. The Department will send a letter to the borrower requiring the return of those funds.

- 41. A parent would like to apply for a Direct PLUS Loan, but does not want to provide a Social Security Number. Is there an alternative identifier that the school can use to originate a PLUS loan for this borrower?**

No. Except for students who are citizens of certain Pacific islands, the law requires all individuals to provide a valid Social Security Number in order to receive any Title IV aid, including Direct PLUS Loans. The school may not originate a PLUS loan for this borrower without the borrower's Social Security Number.

EXIT COUNSELING

- 42. What is the earliest date that a school may conduct exit counseling? When exit counseling sessions for graduating students are scheduled immediately before graduation, many students do not attend because they are busy with other activities.**

The Direct Loan and FFEL Program regulations require schools to conduct exit counseling "shortly before" a borrower ceases at least half-time study. This may be no earlier than immediately before the borrower's final loan disbursement before the borrower leaves the institution. However, a school that chooses to conduct exit counseling at this time may not withhold final disbursements from students who fail to attend the counseling.